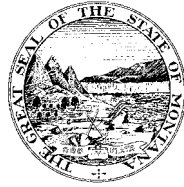


LEGISLATIVE AUDIT DIVISION

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TO: Legislative Audit Committee Members

FROM: Jim Pellegrini, Deputy Legislative Auditor, Performance Audits

C: Janet Kelly, Director, Department of Administration
Marvin Eicholtz, Administrator, General Services Division,
Department of Administration

DATE: September 2005

RE: Follow-up to Performance Audit: Management of State Government Airfare
Purchases, Department of Administration 05SP-32 (Original report, 03P-07)

INTRODUCTION

The Legislative Audit Committee prioritized a performance audit of state government airfare purchases. The performance audit contained two recommendations, including one two-part recommendation, for a total of three recommended actions.

This memorandum summarizes information on the implementation status of each audit recommendation.

Overview

The Department of Administration implemented two of the three recommended actions, and is implementing the third recommended action related to gathering management information. To help state agencies obtain more cost-effective airfares, the department developed and implemented a website that provides agency personnel with airfare and travel information. To enhance state government's ability to manage airfare costs, the department negotiated a new contract with a purchasing card vendor that requires the vendor provide airfare purchases data reports. The department also implemented state policy that requires agencies purchase airfares with the state purchasing card. However, agency financial records indicated varied compliance with the new airfare purchasing policy, ranging from less than 50 percent to more than 90 percent compliance. The department should re-emphasize state airfare purchasing policy to improve policy compliance.

BACKGROUND

The General Services Division within the Department of Administration (DofA) is responsible for state procurement of goods and services, and setting state travel policy. During the audit, we determined the average cost for airfares purchased by state agencies and the university system was significantly higher than the average cost for airfares originating in Montana. The state had not actively managed procurement of airfare purchases or fully developed tools to help ensure agencies purchase airfares at the lowest reasonable cost.

To examine the implementation status of report recommendations, we:

- Reviewed the DofA response to our requests for implementation status of recommendations.
- Reviewed the DofA website that provides state agency personnel with information for obtaining the lowest reasonable fare.
- Reviewed policies and other agency documentation to verify implementation status.
- Analyzed a statistical sample of state agency commercial transportation purchases to examine agency compliance with state travel policy implemented by DofA.

FOLLOW-UP AUDIT FINDINGS

The following sections summarize the report's findings and recommendations, and our assessment of the agency's actions to implement the recommendations.

DOFA SHOULD PROVIDE AGENCIES ADDITIONAL GUIDANCE FOR PURCHASING AIRFARES

Audit work indicated state government airfare purchasing was very decentralized, and purchasing methods varied among and within agencies. Although DofA is responsible for oversight of state government purchasing, it did not provide guidance or information to encourage economical or efficient airfare purchasing practices. One result was state government airfares cost on average about \$44 more than the statewide average for comparable airfares.

Recommendation #1

We recommended the Department of Administration develop and implement programs and procedures to assist agencies in identifying and obtaining more cost-effective airfares.

Implementation Status – Implemented

The department developed a website that provides state employees with information to help them obtain more cost-effective airfares, including:

- Descriptions of restricted and unrestricted airfares and factors for determining which type to purchase.
- Airline contact information.
- Information to help obtain more economical airfares.
- Third-party airfare purchases.
- Information about using travel agents.

Our review of the DofA travel website indicates it provides information identified in the original report as useful for obtaining more cost-effective airfares.

IMPROVING AIR TRAVEL MANAGEMENT INFORMATION

DofA did not track or monitor state airfare purchasing activities. Consequently, DofA did not have management information for identifying agency airfare purchasing needs or examining opportunities for reducing airfare and travel costs. For example, other states have contracted with airlines for reduced airfares or with travel agencies for services. Audit work and discussions with DofA management indicated the department could obtain this data by tracking airfares purchased using the state purchasing card. This option would allow the department to monitor airfare purchases without investing resources in a new management information system.

Recommendation #1

We recommend the Department of Administration:

- A. Direct state agencies to use the state purchasing card for airfare purchases.
- B. Use the state purchasing card to obtain and analyze management information to improve airfare purchasing activities.

Implementation Status

DofA **implemented** the first part of the recommendation. Effective July 1, 2004, state policy required state agencies to use the state purchasing card for individual employee airfare purchases unless it can be documented another payment method is in the state's best interest.

DofA **is implementing** the second part of the recommendation, and has further expanded its efforts to obtain better airfare data. DofA negotiated a contract with a new purchasing card vendor in 2005. The new contract requires the vendor to provide the state monthly airfare purchases data, including travel segments. State agencies will begin using the new purchasing card in August 2005.

Follow-Up Analysis Of Agency Compliance With State Policy

Agency compliance with airfare purchasing policy is critical for DofA to collect and analyze data for future airfare purchasing management. To examine agency compliance we reviewed a sample of agency commercial transportation purchases to evaluate agency compliance with state policy requiring agencies to purchase individual employee airfare purchases with the state purchasing card.

Using FY2005 SABHRS financial data, we randomly selected a sample of commercial transportation purchases for six state agencies. Four agencies selected were included in our original analysis. We did not examine University System purchases. Since SABHRS commercial transportation data does not distinguish between airfare purchases and other types of commercial transportation, such as taxi or bus fares, we only examined transactions exceeding \$75 to exclude most non-airfare purchases.

Agency Compliance Appears to Vary

Our analysis indicates agency compliance with state policy varies, with some agencies in greater compliance than others. For the six agencies selected, agency personnel purchased approximately

76 percent of the sampled commercial transportation purchases using a purchasing card. However, compliance for individual agencies varied significantly.

To examine agency policy compliance for each of the six agencies, we analyzed all agency purchases that met our sample criteria. Three agencies used the purchasing card for 91 percent or more of the purchases. Records of the other three agencies indicated substantially less compliance, and one agency purchased less than 50 percent of its commercial transportation purchases using a purchasing card. SABHRS data indicates some agencies continue to use state warrants to pay vendors for airfare purchases. Additionally, SABHRS data indicated agencies reimbursed employees for airfare purchases. One agency, for example, reimbursed employees for approximately 22 percent of commercial transportation purchases.

Conclusion

Overall, data suggests agencies are using the state purchasing card for the majority of airfare purchases. However, agency compliance with state policy varies, and may affect DofA's ability to effectively collect and evaluate state airfare purchasing practices essential for future management of state airfare purchases. While state agencies are responsible for purchasing non-controlled items such as airfares, DofA should re-emphasize to state agency directors and managers the changes to the state's airfare purchasing policy and agencies' responsibilities for ensuring compliance with the policy.

New Purchasing Card Agreement Provides Additional Incentives and Benefits

In March 2005, DofA entered into a purchasing card agreement with a new vendor. The new agreement substantially increases the rebate the state earns based on percentage of total purchasing volume. State agencies, including the university system, purchased more than \$30 million during the last contract year. Assuming total purchasing volume remains the same, the state would earn a rebate of approximately \$334,000, compared with approximately \$84,000 last year. DofA also identified other purchasing card benefits, including traveler's insurance for airline and rental cars and issuance of fewer state warrants.